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ABSTRACT

The study's main objectives were: to describe management techniques and incentives used to operate successful proprietary vocational schools; to compare these techniques and incentives with those existing at community colleges; and to review Federal policies affecting the utilization of proprietary vocational schools. Data and information for the study were obtained from a survey of existing literature and from interviews with students, faculty, and administrators of more than 20 accredited proprietary schools and two community colleges. The proprietary vocational schools represent a group of diverse sizes, orientations, and financial stabilities. The body of the report, following the summary of findings and recommendations, contains four parts. Part 1 presents a general description of proprietary vocational schools. Part 2 describes the missions, student bodies, and management of proprietary schools, based on case studies of several proprietary schools which were analyzed in detail. Part 3 analyzes the competition between proprietary business schools and community colleges, again based on selected case studies, and draws some conclusions about relative performance. Part 4 addresses public policy questions and research issues which derive from the study's findings, and concludes with specific recommendations related to Federal policy and funding methods. (Author/MW)

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PREFACE

Introduction

This paper is part of a larger study to improve Federal understanding of the ways in which different types of post-secondary education institutions allocate resources, and the effects on resource allocation practices of alternative Federal funding methods.

We have learned in an earlier phase of this research* that the incentives motivating faculty and administrators at traditional post-secondary education institutions often encourage activities inconsistent with student objectives and national goals. Faculty and administrators seem to be rewarded for research, prestige, and institutional size, whereas students seem to desire more individual attention to their learning needs, increased equalization of educational opportunity, and greater relevance of curricula. Because faculty and administrators dominate the college budget allocation process, and because their rewards are somewhat inconsistent with cost-effective use of resources, pressures for cost-effectiveness are weak in many colleges and universities.

Study Objectives

This paper describes the behavior of faculty, administrators, and students at a small sample of proprietary vocational schools -- post-secondary education institutions which are profit-motivated, have different perceptions of mission, and are governed under different incentives than are their counterparts in the field of non-profit post-secondary education. These schools and their students have a single clear objective -- full time employment following completion of specific occupational training courses. Effective demand for particular types of career training must exist at a level that covers all costs and yields a reasonable profit. The continued viability of proprietary vocational schools suggests either that these schools now offer training unavailable elsewhere, or that students consider their educational programs and placement services superior to public institutions providing similar training.**

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* Edward W. Erickson, Watts Hill, Jr., and Herbert S. Winokur, Jr., "The Effects of Alternative Federal Operating Subsidies on Institutions of Higher Education: A Preliminary Report", Inner City Fund, Washington, D.C., 1971, prepared for HEW under Contract OS-71-87.

** A third possibility is that proprietary business schools prosper as a result of attractive but misleading advertising, as suggested by the recent Federal Trade Commission hearings. For example, the Florida Senate Select Committee on Consumer Protection found that, "deceptive schools do not perish in Florida but, instead, are thriving; if they do vanish from a particular area, they reappear elsewhere". See Federal Trade Commission, "Public Hearing on Proposed Guides For Private Vocational and Home Study Schools", Docket No. 216-14, Dec. 2, 1970.

We also compare the operation of, and Federal policies toward, for-profit and nonprofit institutions, and discuss the potential for increased utilization of proprietary vocational schools to meet Federal education objectives. Accordingly, this study of proprietary schools has the following objectives, within the context of our research on structural reform:

-- to describe management techniques and incentives used to operate successful proprietary vocational schools;

-- to compare these techniques and incentives with those existing at community colleges; and

-- to review Federal policies affecting the utilization of proprietary vocational schools.

Methodology

Data and information for this study were obtained from a survey of existing literature and from interviews with students, faculty, and administrators of more than twenty accredited proprietary schools and two community colleges.* The proprietary vocational schools represent, within the time and scope of this study, a group of diverse sizes, orientations, and financial stabilities. The schools selected were:

-- schools in a business school group (a subsidiary of a financial holding company) with nine member schools in the East and Midwest, (one of which has a history of financial problems);

-- schools in a business school group (a subsidiary of a major conglomerate corporation) with six member schools in an Eastern state;

-- schools in an independent business school group in a Western state, covering nine member schools;

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* Budgetary and time limitations prevented us from interviewing alumni or dropouts. These schools were selected to provide a mix of operating experiences, histories, geographical location, and corporate affiliation. As is noted later in the text, only well-established schools with excellent reputations were chosen. The purpose of the study was not to describe the universe as it now exists, but to analyze in detail the operations of successful proprietary schools--those which compete successfully with community colleges despite a large tuition difference.

-- three Southern business schools, ranging from very small to large;

-- a medium-size mid-Atlantic trade and technical school specializing in programs for disadvantaged students (in order to compare business and trade and technical schools);

-- a large Midwest urban community college with a strong vocational education orientation; and

-- a large West Coast urban community college with both liberal arts and vocational programs, and with rapidly expanding enrollment.

The following discussion covers information obtained on management, faculty, recruitment, placement, costs and revenues, and operating procedures. Particular attention was paid to:

-- the procedures followed by management to insure the maintenance of a profitable and viable institution;

-- the competition each proprietary school faces, both from the job market and from other public and private post-secondary education institutions; and

-- the relationship of roles filled by proprietary schools to those of other institutions in filling students' needs.

Most of the proprietary schools we analyzed in detail provide business training. We chose to concentrate on business schools to illuminate aspects of competition between proprietary vocational schools and other post-secondary education institutions -- proprietary business schools and community colleges have similar stated missions and curricula.

Limitations

This study was conducted during a short period as part of a broader research effort, and cannot be considered definitive--nor should policy decisions be made solely from the data presented herein. Although the conclusions are tentative in nature, they are intended to provide guidelines for further investigation.

The proprietary schools surveyed in the course of the study in general are well-established, with excellent reputations and sound management. We do not infer that all proprietary schools maintain the same standards as the ones surveyed, and therefore warn that our findings and conclusions may apply only to a part of the universe of proprietary schools. Similarly, the few community colleges studied may not be typical. Comparisons between proprietary schools and community colleges presented in this study should be interpreted as relating to the best of each group, rather than to "typical" members. Changes in Federal policies developed with reference to these findings therefore should include certain minimum quality standards for both proprietary schools and community colleges.

Organization

The body of this report, following the summary of findings and recommendations, contains four parts:

-- Part I presents a general description of proprietary vocational schools.

-- Part II describes the missions, student bodies, and management of proprietary schools, based on case studies of several proprietary schools which were analyzed in detail.

-- Part III analyzes the competition between proprietary business schools and community colleges, again based on selected case studies, and draws some conclusions about relative performance.

-- Part IV addresses public policy questions and research issues which derive from the study's findings, and concludes with specific recommendations.

SUMMARY OF FINDINGS AND RECOMMENDATIONS*

General Characteristics of Proprietary Schools

Proprietary schools are privately owned and profit-oriented post-secondary education institutions providing vocational training. Although proprietary schools offer a wide range of curricula, each individual school tends to specialize in one or a small number of related areas.

About 1.5 million students were enrolled in 7,071 proprietary vocational schools in 1966 (the most recent year for which data are available), representing approximately one-fifth of the total enrollment in post-secondary education institutions. Business school students comprised 0.4 million (28 percent) of the total, trade and technical school students 0.8 million (53 percent), and the remaining 0.3 million students were enrolled in cosmetology or barber schools. Most proprietary schools are relatively small in terms of enrollment: 70 percent of the business schools had enrollments of 400 students or less, and 66 percent of the trade and technical schools had enrollments of 240 or less.

There has been a marked tendency toward corporate ownership of schools, and away from sole proprietorships in the past several decades. From 1939 to 1962, the percent of schools under corporate ownership doubled from 33 to 66 percent, while the percent of sole proprietorships decreased from 50 to 16 percent. (The percent of schools organized as partnerships has remained stable at 16 percent.) To some extent, the tendency toward corporate ownership reflects a tendency toward acquisition of "chains" of proprietary schools by larger corporate entities. Some notable examples are ITT with 15 schools in its education subsidiary, and LTV with 30 schools.

Mission of Proprietary Schools

Proprietary schools have a single, well-defined mission --specific occupational training aimed toward full-time job placement in the shortest possible time. This objective meets the needs of students, owners, and administrators. Preparing students for employment -- the students' objective -- is consistent with owners' and administrators' profit objective.

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* Sources of statements in the summary are cited in the appropriate sections of the text which follows.

(The profit motive stimulates continuous changes in program offerings and instruction methods, to reflect changing student demands and labor market conditions.) Local business and industry also are served by this objective because they are provided with a pool of skilled potential employees whose job training has been geared to meet their particular needs.

Management of Proprietary Schools

All of the schools we visited are operated by a management team which usually consists of a president, director or dean, and several admissions counselors. Student recruitment and the cost and quality control of program offerings are the primary management tasks, and the only two functions with which major costs are associated. Although a good placement record is extremely important to a school's reputation, placement is not costly to the schools we visited because employers are eager to hire the graduates of these respected proprietary schools.

Successful student recruitment is very important for three reasons:

-- adequate student enrollment is essential to cover fixed costs;

-- accurate predictions of future enrollments reduce the likelihood of costly over-estimates of classroom or dormitory space needs; and

-- student recruitment is costly, so greater efficiency can mean large savings to the school.

(For example, one school's central management feels that the difference between their target expenditure pattern, with about 20 percent of total operating costs allocated for recruitment, and the pattern of some other schools, with about one-third of total operating costs spent for recruitment, is a critical determinant of their school's financial success. Recruitment here includes admissions and counseling.)

Cost control of program offerings requires controlling class size and course diversity to minimize the number of class sections, maximize class size, and maximize the overlap of classes among various programs--all within the constraint of maintaining sound educational programs which produce placeable graduates. Program planning follows placement experience very closely. Because most programs are quite short, the lag between perceived employer demand shifts and appropriate curriculum changes also is small. The most important features of program offerings are:

-- strong vocational orientation,

-- short time to completion,

-- intensive use of actual business equipment and procedures, and

-- faculty instruction geared to individual needs of students.

Courses at the proprietary schools we visited generally are offered in small achievement units, with materials grouped into categories that are easy to assimilate. Feedback, in the form of recognition or grades, occurs frequently. Many courses, and even examinations, are geared to individual students' learning capacity, and instructors are responsible for motivating a high percentage of their students. Students who are having academic difficulty may be counseled to change from a degree or diploma program to a certificate program which requires less advanced coursework. These factors seem to contribute to the frequent success of the proprietary schools we visited in motivating slow learners or dropouts who were not stimulated by public institutions.

Proprietary schools' revenues are derived from tuition, which is set at the highest rate possible to maintain full enrollment. The demand at the schools we visited appears to be relatively insensitive to tuition as long as (a) programs are short (hence opportunity costs are small) and (b) adequate financing is available.

Because proprietary school tuition rates are high relative to public institutions' tuition (for example, the tuition rate at one group of schools is $450 per quarter), loan programs are very important for many students. About 30 percent of students in the schools surveyed participate in Federal loan programs, and well over half receive some type of non-parental assistance. Work-study programs are generally not popular with students because they increase the time to completion. Because Federal and state loan programs are often insufficient to meet students' needs, many schools operate supplemental loan programs.

Competition Between Proprietary Schools and Community Colleges

In contrast to the well-defined goal of proprietary schools, community colleges are characterized by pressures to serve a wide array of area needs and expectations. Generally, community colleges appear to want to offer an "open door" to all who cannot get in or stay in other post-secondary education institutions, and to help students move in the direction of their choice. These conflicting needs and objectives may deter community colleges from developing effective curricula in any one program area -- academic, vocational, or remedial.

Our data indicate that many proprietary business school students have above-average high school academic records and can meet the entrance and academic requirements of four-year or community colleges. These proprietary business school students, however, choose to invest substantial sums for courses that are available at much lower direct cost to the student in public institutions. Students in earlier studies have cited three major reasons for the continued popularity of proprietary vocational schools:

-- time, including (1) shorter course length and (2) more frequent starting points (registration) for classes;

-- course content, in which the curriculum contributes directly to the development of skills necessary for employment; and

-- placement service, under which proprietary vocational schools endeavor to obtain employment for their graduates.

Proprietary school students complete their programs far more often than do community college students in general in the schools visited. (About 85-90 percent of all proprietary school students at those schools completed their programs, compared to 25-35 percent of community college students.) However, students enrolled in vocational programs at the community colleges we visited seemed to have completion rates comparable to those of proprietary school students. We conclude that comparison of overall completion rates between proprietary school and community college students must be adjusted for the expectations of the students themselves -- some community college students in nonvocational programs seem to enter for specific course credits, with no expectation of completing a degree program.

Placement experience for the proprietary schools we visited is quite good. Employers generally are eager to hire the graduates of schools known to have sound training programs. Administrators of the West Coast school group stated that there were 8 to 20 job openings available for each of their graduates. Placement services at the two community colleges we visited seemed much less active and less successful. (Some students transferred from community colleges to one group of proprietary schools we studied to improve their employment prospects.) Further, prospective employers seemed less willing to accept assurances of good performance from community college placement officers in part because these community colleges are less accountable for the job performance of their graduates.

Annual proprietary school tuition charges are high; they averaged $850 in 1969-1970, compared with only $148 in community colleges. Any consideration of total education costs also must include the student's opportunity cost of foregone income. Because many proprietary school programs require only one year to completion, the proprietary school student's cost of foregone income is substantially lower than that of the community college student. Thus, output of proprietary schools, measured in terms of completion rates and job placement, compares well with the experience of vocational programs at community colleges while total costs, including cost of foregone income, generally are lower.

Administrators at the proprietary schools which we visited do not see community colleges as an important long-term threat, partly because community college policies, especially emphasis on college parallel studies, open admissions, and lack of formal placement services, do not meet the needs of many potential students with strong vocational orientation. (The job market is seen as proprietary schools' strongest competition.) They do acknowledge, however, that the initial impact on proprietary school enrollment of a new community college may be quite large -- the latter may attract many area students by virtue of its low tuition with seemingly equivalent program offerings. The initial effect seems to be substantially diminished over several years, as the differences in the real costs and quality of service become evident to potential students. However, some low-income students with strong vocational interests will continue to attend community colleges because they will be unable to obtain a student financial aid package at proprietary schools suitable to their needs.

Policy Implications

Conflict over the legitimate role of proprietary vocational schools in meeting Federal objectives has led to disparities in the utilization of vocational schools under various public programs. For example, while the Manpower Development and Training Act programs have awarded many contracts to proprietary vocational schools to upgrade the skills of unemployed persons, the Vocational Education Act programs have avoided use of proprietary business schools. There seems to be no legislative basis for this disparity. Also, there is probably substantial geographic variation in the practices of individual regional offices within any one program.

Students attending proprietary vocational schools are eligible for assistance under two of the three key Office of Education student aid programs, College Work Study and National Defense Student Loans, but not for the Educational Opportunity Grant Program.* Additional assistance is available under programs run by other Federal agencies, such as the Veterans' Administration and Social Security Administration. Generally, the minimum requirement a proprietary vocational school must meet to be eligible for Federal contracts or to enroll students receiving loans or grants administered by HEW is to be accredited by an accrediting commission recognized by the Office of Education. The Veterans' Administration and Social Security Administration, however, require only that schools meet state licensing requirements -- which in some cases are virtually nonexistent.

There is increasing evidence that proprietary schools provide vocational education which is cost-effective and consistent with Federal post-secondary education objectives. The Federal government presently does not have a consistent policy towards use and support of proprietary schools; such a policy should address the following topics:

-- agencies covered -- Federal agencies which sponsor training should be identified and their support (present and proposed) of proprietary vocational schools should be clarified;

-- agency with prime responsibility; and

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* There is additionally a Guaranteed Student Loan program which varies from state to state, but which always involves Federal and sometimes state guarantees. Under the Educational Amendments of 1972 (P.L. 92-318) to the Higher Education Act of 1965, proprietary school students also may be eligible for Educational Opportunity Grants.

-- schools and programs covered -- A Federal policy must establish standards of eligibility to ensure the effective use of Federal funds for proprietary school training. Federal policy also must address the types of aid which are to be provided. The proprietary school administrators we met were interested in expanding their services through increased student aid or through "performance" contracts for specific training; they opposed institutional subsidies of their schools and any direct government involvement in the educational program.

A Federal proprietary school policy also should encourage joint ventures between proprietary vocational schools and other post-secondary education institutions. The result would be a broadening of educational and occupational choices by allowing students in academic studies to learn specialized skills in a specialized environment. Joint ventures between proprietary schools and industry also should be encouraged. Proprietary schools could provide necessary remedial or skills training to employees. (Previous joint venture arrangements between employers and the schools we visited seem to have worked well for all parties.)

A necessary adjunct to the development of a Federal proprietary school policy is the maintenance of more extensive data on proprietary schools. Such data would be of use to the general public, because factual information concerning proprietary schools is not always readily available to the potential student.

Several research questions should be addressed as part of the development of a Federal government policy towards proprietary schools. First, the school factors which control program quality need to be better understood. Better comparisons of the total costs to society and students receiving proprietary school and community college vocational education also are required. Third, the results of these analyses and other existing research should be reviewed to see if they support policy changes covering a broad universe of schools. Finally, other Federal higher education program decisions should include a consideration of the impact on proprietary schools. The choice, for example, between student aid and institutional facilities or operating cost subsidies is a critical factor in the future growth of proprietary education.

I. GENERAL CHARACTERISTICS OF PROPRIETARY SCHOOLS

Introduction to Proprietary Schools

Proprietary schools are privately owned and profit-oriented post-secondary educational institutions which provide vocational training. Although proprietary schools in the aggregate offer a wide range of curricula, each individual school tends to specialize in one or a few related areas.

Proprietary vocational schools can be grouped into four general categories, based on their principal program: trade and technical, business, cosmetology, and barber. The number of schools and students in each category are shown in Table 1-1 below; in 1966 about 1.5 million students were enrolled in 7 thousand schools.*

TABLE 1-1

ESTIMATED NUMBER OF PROPRIETARY VOCATIONAL SCHOOLS AND STUDENTS IN THE U.S.: 1966

	Schools		Students	
Category	Number	%	Number	%
Trade and Technical	3,000	43	835,710	53
Business	1,300	18	439,500	28
Cosmetology	2,477	35	272,470	18
Barber	294	4	15,876	1
TOTALS	7,071	100	1,563,556	100

Source: A. Harvey Belitsky, Private Vocational Schools and Their Students, Schenkman Publishing Co., Cambridge, 1969, p. 9.

* This includes accredited and non-accredited schools offering vocational training only. According to a 1964 estimate, the number of proprietary "specialty" schools exceeded 35,000 with a probable enrollment greater than 5 million. Most of the schools included in the latter estimate offered lessons in leisure time activities as well as employment oriented courses. See Harold F. Clark and Harold S. Sloan, Classrooms on Main Street, Teachers College Press, New York, 1966.

In 1966, about 945,000 students were enrolled in public and private two-year colleges and about 4,983,000 students in public and private four-year colleges and universities.* Proprietary vocational schools' enrollment represents a significant proportion of total enrollment in post-secondary education institutions -- 21 percent, compared with 12 percent for two-year institutions and 67 percent for four-year schools.

A 1967 survey showed that most proprietary schools have relatively small enrollments.**

-- 66% of the trade and technical schools had enrollments of 240 or less;

-- 70% of business schools had enrollments of 400 or less;

-- 85% of cosmetology schools had enrollments of 150 or less; and

-- 75% of the barber schools had enrollments of 70 or less.

Additional data for accredited business schools from the annual United Business School Association Membership Profile surveys suggest that the composition of the average school has not changed:

-- average monthly enrollments of day students per school were 294 in 1969 and 292 in 1970;

-- the mean number of full-time faculty per school remained about constant at 10 in 1969 and 9 in 1970;

-- the mean number of part-time faculty per school also was constant at 5 in both 1969 and 1970.

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* Department of Health, Education and Welfare, National Center for Educational Statistics, Digest of Educational Statistics: 1970, Washington, D.C., 1970, p. 75.

** Belitsky, op. cit., p. 13.

Proprietary schools are organized as business enterprises in one of three general ways: sole proprietorships, partnerships, or business corporations. There has been a marked tendency toward corporate ownership in the past several decades, as shown in the following table:

TABLE 1-2

SCHOOLS BY TYPE OF OWNERSHIP: 1939 and 1962

Ownership Type	1939	1962
Sole Proprietorships	50%	16%
Partnerships	16	16
Corporations	33	66
Other	1	2
TOTAL	100	100

Source: R.A. Fulton, "Proprietary Schools", Encyclopedia of Educational Research, 4th edition, edited by Robert L. Abel, MacMillan Co., New York, 1969, p. 1026.

To some extent, the tendency toward corporate ownership reflects a tendency toward acquisition of "chains" of proprietary schools by larger corporate entities. As indicated by the following table, the number of United Business School Association (UBSA) member schools that reported their status as subsidiaries of publicly held corporations more than tripled from 1969 to 1970.

TABLE 1-3

CORPORATE OWNERSHIP OF SCHOOLS: 1969 and 1970

Ownership Type	1969	1970
Business Corporation Closed	206	199
Unit of Business Corporation Publicly Held	16	59
TOTAL	222	258

Source: 1969 and 1970 UBSA Membership Profile Surveys.

The large increase in corporate ownership during the period 1969-70 derived from the increased acquisition of proprietary schools by large corporations. Some of the largest corporate "chain" owners are ITT, with 15 schools in its education subsidiary, and LTV, with 30 schools.

History*

There is a long history of conflict over the acceptability of business education in the curriculum of nonproprietary educational insititutions. In 1897, when business training was generally thought to be

* Because we feel proprietary business schools' programs more closely resemble nonprofit education institutions' programs than do programs of other proprietary schools, the following history of proprietaty schools emphasizes the proprietary business school.

an unacceptable role for colleges and universities to fill, only 5,800 students were enrolled in business courses in universities, while proprietary business schools enrolled 71,000 students.* Since around 1910, the educational community has grown more receptive to the need for vocational education; business and educational curriculum offerings in colleges and universities have expanded even though proprietary vocational schools of all types also increased.

The cycle seems to have been completed in the last decade. Many educators again have stressed that four-year colleges and universities ought to eliminate business and commercial subjects from their undergraduate curricula. As four-year nonprofit institutions withdrew from this area, proprietary schools and two-year colleges expanded to fill students' unmet needs.**

Although enrollments in all post-secondary education institutions increased greatly in the 1960's,*** the growth in business school students was even greater; total enrollment in two-year schools (public and private) increased 138 percent from 1960 to 1967.

Enrollment estimates from Accreditation Commission for Business Schools (ACBS) surveys of accredited proprietary business schools from 1963 to 1970 are shown in Table 1-4. (Data on non-accredited schools were not available.) Total enrollment increased about 85 percent from 1963 to 1967, while the number of member schools increased by 50 percent. Subsequent possible enrollment declines may be due, in part, to increased availability of business education at lower costs in public community colleges or to the increased availability of jobs

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* Fulton, op. cit., p. 1024

** Ibid.

*** From 1960 to 1965, total enrollment in four-year, post-secondary education institutions increased 58 percent, from 3.2 to 4.7 million, and enrollment in two-year schools (both public and private) increased 89 percent, from 450,000 to 845,000. Digest of Educational Statistics: 1970, op. cit., p. 66.

*** "Business Education: Post-secondary Institutions", Encyclopedia of Education, Vol. 1, edited by Lee C. Deighton, MacMillan Co., New York, 1971, p. 519.

for high school graduates.*

TABLE 1-4

ACCREDITED BUSINESS SCHOOL ENROLLMENT: 1963-1970

Year	Total Enrollment	Number of Schools 1/	Average Number Students/School
1963	76,796	222	346
1964	86,252	225	384
1965	116,234	264	440
1966	124,453	309	403
1967	142,649	332	430
1968	119,665	348	344
1969	97,512	318	307
1970	130,109	410	317

1/ This figure represents only the number of accredited business schools who participated in the survey; all members were invited to reply. There were almost 500 accredited business schools in 1970. The data are taken from "ACBS 1967 Enrollment Survey", The Compass, October, 1968, p. 13; and "ACBS Student and Faculty Survey", The Compass, July, 1971, p. 12.

* These data suggest that proprietary vocational schools may have faced especially strong competition in the period 1967 to 1969 from both major competitors -- the job market and public community colleges. Unemployment fell steadily during the 1960's, from 5.5 percent in 1960 to 3.5 percent in 1969. The lowest rates of the decade, 3.6 percent and 3.5 percent, were achieved in 1968 and 1969, the years in which vocational school enrollment declined sharply. Conversely, the unemployment rate rose to 4.9 percent in 1970, and vocational school enrollment also increased substantially. (Proprietary schools generally do well in recessions; persons with limited skills are likely to be unemployed and anxious to obtain job training.) Public community college enrollment increased 46 percent in the two years from 1967 to 1969, compared with an enrollment increase of only 43 percent in the four years from 1963 to 1967. The combined effects of plentiful jobs and the increased availability of cheaper training in public community colleges may explain, in part, the enrollment declines in 1968 and 1969.

Technical vocational education, at both the secondary and post-secondary levels, also realized substantial growth during the past ten years. Until about fifteen years ago, technical post-secondary schools served very few students in comparison with traditional two- and four-year institutions. The Soviet launching of Sputnik 1 in 1957 dramatically directed public attention to the need for more technically trained personnel, and largely provided the impetus for passage of the National Defense Education Act (NDEA) in 1958. Increased national awareness and new funding provided by NDEA led to rapid enrollment and program expansion in technical schools. The number of technical post-secondary schools increased from 405 in 1963 to 1,697 in 1968 -- a four fold increase in a five year period. In comparison, the number of two-year colleges doubled in the past 10 years to 1,100 institutions in 1971.*

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* David S. Bushnell and Ivars Zagaris, Report From Project Focus: Strategies for Change, American Association of Junior Colleges, 1972, p.1.

II. MANAGEMENT OF PROPRIETARY SCHOOLS

Objectives

There appears to be general agreement among administrators, faculty, and students at the schools we visited about those proprietary schools' appropriate mission -- specific occupational training aimed toward full-time job placement in the shortest possible time. The ultimate veto over outputs rests with the students, who purchase the services of that school which most closely meets their needs. Although some students pursuing academic studies in two- or four-year colleges may select a school based on nonacademic reasons, proprietary vocational school students we encountered generally seek well-defined skill training and placement, and are unlikely to attend a proprietary school simply to "find themselves". Proprietary school student choices, therefore, are based on a relatively precise output measure -- jobs and income received from training.* The large number of proprietary vocational schools, their growing competition with community colleges, and the requirements of accreditation generally insure that prospective students do have a real choice of institutions.

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* Many economists analyze post-secondary education in terms of the rate of return on students' investment in human capital. This approach is criticized often because education at traditional four-year colleges and universities combines elements of investment and consumption. Training at proprietary schools probably is more amenable to analysis of rate of return -- pure investment -- than is any other type of post-secondary education. The student pays his full costs and measures opportunity costs against future income before enrolling in a proprietary school. The curriculum is totally directed towards increasing future income.

Program Offerings

The program offerings at one proprietary Southern business school are representative of proprietary business school curricula --

general business	clerk-typists
secretarial	senior secretarial
stenographic	medical secretarial
fashion secretarial	fashion merchandising
data processing	basic accounting
senior accounting	business administration

Franchised courses are available for many subjects. One business school, for example, uses ITT's franchised courses in speedwriting, shorthand, "Mr. Executive", and fashion merchandising.

Program offerings generally include diploma and certification programs. Two-year programs also may lead to an A.A. degree.* Diploma programs are three to six quarter concentrations in such subjects as stenographic, secretarial, medical secretarial, general business, and junior accounting. Certificates of achievement generally require less time -- one to three quarters -- and are obtainable for very specific skills, such as typing or shorthand. In business schools offering diploma programs in data processing, courses in this area generally are available as electives to students in other programs. These students then qualify as junior programmers in addition to their primary program qualifications.

Students who are having academic difficulty may be counseled to change from a degree or diploma course to a certificate program, which requires less advanced coursework. For example, one Dean of Instruction stated that, as long as students are motivated, even if they do not have the ability to complete a diploma program, his school can certify them in a specific business clerical skill and guarantee performance and motivation to a prospective employer.

* Several states, including California, New York, and Florida, allow proprietary schools to grant Associate Degrees. A.A. degree programs include concentration in such areas as accounting, business administration, marketing, and data processing. The Accrediting Commission for Business Schools, however, only accredits two- and four-year junior and senior colleges of business which grant A.A. degrees, even if the state authorizes one year business schools to grant A.A. degrees as well.

Students

Data from a 1967 survey* provide the following general picture of students enrolled in proprietary business schools:**

-- more than 70% are between 18 and 21 years of age;

-- about 80% of the business administration students are male, while about 90% of secretarial and clerical students are female;

-- almost all are high school graduates who ranked in the upper three-quarters of their graduating classes; and

-- more than half lived away from home while attending school.

Approximately 20 percent of students in accredited business schools enrolled after having completed one or more semesters in four-year colleges and universities.***

The general admissions requirement at the proprietary schools we visited is high school graduation (with advanced placement in typing and shorthand on the basis of tests). Many students at these schools are highly qualified and could have chosen to attend four-year degree granting institutions. At one school, two-thirds of the students come from the top two-fifths of their high school class. At two other schools in the same group the students are uniformly distributed by rank (e.g., two-thirds in the top two-thirds); about 60 percent of the students were enrolled in the academic program in high school.

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* Fulton, op. cit., pp. 1025-1027.

** Data from a 1967 survey of trade and technical school students show that students at these schools are similar to those in proprietary business schools. See A. Harvey Belitsky, op. cit., p. 95.

*** Fulton, loc. cit.

Many students attending the West Coast group of schools we visited (most students come from families with $7,000 to $15,000 income) were in the top half of their high school class, and also could have chosen to attend a four-year degree granting institution. The recent turndown in job possibilities on the West Coast has led to increased quality of student applicants, with a relatively high percentage of new applicants now coming from college preparation programs in high school or as transfers from community colleges. Students at one of the independent Southern schools are primarily female (as is the case in all of the secretarial programs we visited -- bookkeeping and accounting programs are attended by a predominance of males).

Although we obtained no quantitative data on the qualitative aspects of students attending proprietary schools, the students seemed to be extremely motivated and interested in future employment rather than in student governance and institutional policy. These impressions were corroborated by school administrators, and they follow directly from the mission of proprietary schools -- vocational training for immediate employment.

Faculty*

The faculty in proprietary business schools generally have college degrees; many also have M.A.s, state teacher certification or relevant job experience. (A 1963 survey of business schools showed that 55 percent of faculty held baccalaureate and 23 percent held advanced degrees.) A 1967 survey of trade and technical schools found that the average teacher is male, between 36 and 55 years of age, and generally has been recruited directly from a position in industry. Ninety-nine percent had completed high school, while 62 percent had one or more years of college; 13 percent of the latter group had some graduate training, as well. Proprietary school faculty salaries generally are competitive with those paid by area public high schools. Most faculty hold one-year contracts, and no proprietary school faculty hold life-tenure positions.

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* See Fulton, op. cit., p. 1026, for references to surveys cited in this section.

Most proprietary school faculty we met seem to be full-time, except for those teaching evening programs. Faculty are required to teach from 4 to 5 hours per day; evening programs offer faculty the opportunity to earn additional compensation. Accredited proprietary schools are required to limit faculty work loads to 31 hours per week.*

Faculty in proprietary vocational schools do not appear to affect resource allocation significantly within a school. Several reasons explain the relative powerlessness of proprietary school faculty, as compared with their counterparts in four-year colleges and universities:**

-- Vocational school faculty members usually have qualifications equivalent to, or less than, those of public high school teachers. Their skill requirements are not unique or advanced, and they do not add to the prestige of the institution, as do "star faculty" in many universities, whose specific expertise and access to funding makes them both important attractions of their institutions and difficult to replace;

-- Many university faculty members are involved in externally funded research projects which gives those faculty some economic independence from the school; and

-- The opportunity to wield power over resource allocation from year to year, which university faculty have gained from the traditional tenure system, has been denied to vocational school faculty -- who generally receive no more than one-year contracts.

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* Accrediting Commission for Business Schools of the United Business Schools Association, "Operating Criteria for Accredited Institutes", Washington, D.C., Revised November, 1971, p. 2. A discussion of the accrediting process and enforcement of operating criteria is presented in the Chapter on Policy Implications, infra.

** See Erickson, et. al., op. cit. Prominent faculty members were found to exert a major influence over the resource allocation process, generally in proportion to their prestige within the school. See especially pp. 27-28.

Although proprietary vocational school faculty salaries are equivalent to area high schools' salaries, teaching positions in proprietary schools seem to be considered more attractive by the faculty we met because they require less non-classroom (administrative) work and because students are more highly motivated to learn.

Some of the proprietary schools we visited require that admissions counselors/recruiters have at least one year of teaching experience. This requirement was seen as desirable by almost all of the school administrators we interviewed, both because it improves the quality of counseling (and the school's image) and because they feel it improves the likelihood that students accepted are sufficiently motivated and capable to complete their programs.

Operations

The management teams responsible for operations of the schools we visited generally consist of a president, a dean or director, and several admissions counselors. Increasing student enrollment, meeting cost and quality standards for program offerings, and placement are the teams' primary management tasks.

Recruitment/Admissions Counseling

Student recruitment is the responsibility of the admissions counselors. All the schools we visited recruit primarily through individual contacts with prospective students and their parents. Direct mail and newspaper advertising are used only infrequently, perhaps to announce evening school registration or to attract graduating high school seniors in June or nonreturning college students in January. The recruiting effort instead is built around presentations to high school student assemblies and classes. Counselors discuss first the advantages of a business career generally, and second the advantages of their school; they may also present some guidelines on job interviewing, grooming, etc., and distribute literature and postcards. Respondents are sent a school catalog and invited to visit the campus, where further discussion with counselors will determine whether or not the student should be encouraged to apply. Referrals from previous students generated as much as 70 percent of new applications at the West Coast group of schools.

An effective recruiting effort is very important to our sample of proprietary schools because:

-- it enables schools to project enrollment accurately, which helps avoid costly errors in leasing or purchasing dormitory and classroom space. For example, most schools with enrollment of about 500 students can predict enrollment within 6 to 8 students for a quarter in advance; and

-- recruitment is costly, so that small percentage savings involve substantial absolute amounts of money. The management of one group of proprietary schools sets target selling expenses at about 20 percent of total revenues, but the average at many schools probably approaches one-third.*

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* The percentage of total expenditures allocated for recruitment for a typical community college and proprietary school cannot be compared directly. Proprietary schools probably allocate more dollars per student to recruiting than do community colleges, reflecting the fact that admissions counselors, who represent the bulk of this expense, generally perform a wider array of functions than recruitment alone. Speaking engagements at area high schools provide a school with good public relations. In addition, recruiters counsel students on training and career choices. While some community colleges appear to have no direct recruitment expenditures, guidance counselors often perform similar functions -- visiting area high schools and providing career counseling. If recruitment expenditures are to be compared between schools, the activities they encompass must be closely defined.

Even if comparable total dollar expenditure estimates were obtained both for proprietary schools and community colleges, they could not be expressed as a percentage of total expenditures, because total expenditures also are not generally comparable. Community college administrators operate under an incentive to seek operating subsidies to expand the size of the institution. They also operate within separate capital and operating budgets, without taxes. Proprietary school administrators, operating under a profit constraint with taxes and capital costs included, have an incentive to control costs by leasing facilities and costly equipment, controlling class diversity and faculty size, etc.

Instruction

Total costs primarily are composed of faculty salaries. Cost reduction must focus, therefore, on increasing class size and reducing course diversity without reducing the educational merit of the program or disturbing proper course sequencing -- as controlled by placement experience. Program offerings generally follow placement experience quite closely; because most programs are short, the lag between changes in perceived employer demand and corresponding changes in program offerings is also short.

The adjustment process may involve deleting entire programs. For example, following its acquisition by one large school group, a member school's courses were reduced from 80 to 55 by adding a new program with good appeal and placement potential -- fashion merchandising -- and deleting the real estate and transportation management programs and some redundant marketing courses.

The West Coast group of business schools plans to eliminate data processing at all locations. The central management feels that "while student interest in automation remains high, it is difficult to convert this into enrollments of intellectually qualified candidates; it is even more difficult to place graduates in a seriously declining job market where even experienced programmers are unemployed".

There is a good deal of overlap between courses in different programs to keep the total number of course offerings small. For example, in one school, the secretarial course requires 96 quarter hours credit and the data processing-secretarial course requires 114 quarter hours credit. All but 4 quarter hours credit required in the secretarial course are required in the data processing-secretarial course, and all the data processing credits also are included in the data processing and business administration-data processing programs.

Further, many courses are geared to individual students' learning capacity. Even examinations may be modified to meet the individual student's needs. One photography school in New York gives oral examinations to students who have difficulty reading.

Instructors are responsible for successfully motivating and training a high percentage of their students. Because most students at the schools we visited work part-time, instructors are required to make course materials comprehensible through presentations and demonstrations in classrooms, shops and laboratories, and to minimize the amount of outside homework.

Curriculum planning in school groups seems to be increasingly centralized, but with extensive faculty participation. The West Coast group has recently begun to upgrade and document its curriculum by hiring, on a temporary basis, the director of business education in a major public secondary school system. The director of curriculum is responsible, in coordination with individual school faculties, for documenting a specific, hour-by-hour curriculum for every course which each faculty member is expected to use in his respective school. If any faculty member in that group has difficulty working with the curriculum and wants to modify it, (given that he was involved in its original development) he can do so in conjunction with the curriculum director and the faculty groups involved. Because all faculty have been involved in curriculum development, the standardized curriculum seems to be well received by school faculty.

One school which had operated at a loss under old management found that it could reduce costs and improve quality simultaneously under its new management. Two major adjustments were made in the area of cost control -- the reduction of course offerings to increase average class size and a reduction in the size of the faculty from 16 to 12 full-time members. Eight faculty members who were considered mediocre teachers were released. The new faculty was recruited from among both business personnel and new college graduates. Professional experience was considered an important plus factor. For example, some of the accounting now is taught by a CPA. Besides a reduction of costs, the faculty turnover led to improved quality of faculty training.

Equipment in proprietary schools often is leased -- providing some protection against obsolescence as well as tax advantages -- and is related closely to equipment used by actual employers. Students transferring from community colleges to the West Coast group of schools specifically noted that the proprietary schools' equipment was related more closely to job needs than was the equipment they had used previously.

Placement

Placement is the central indicator of a proprietary school's educational performance. Good placement records are built by recruiting motivated, trainable students, and then graduating and placing only well-trained students. Under these circumstances, employers are eager to hire the school's graduates.

Although a good placement record is extremely important to a school's reputation, placement is not costly to the schools we surveyed and, as yet, does not seem to require much management attention, because employers are eager to hire the graduates of respected schools. The management of one chain of corporately owned schools indicated, however, that one of their immediate objectives is to commit additional resources to a more formal placement effort, in order to increase their competitive edge relative to public institutions.

The West Coast group of schools offers their graduates lifetime placement assistance and brush-up/refresher courses. Although only about 10 percent of students take advantage of this service, the management feels that it is an effective recruiting device. This service also offers an opportunity to monitor the quality of training, because inadequate training might lead to frequent demands by the same student for refresher courses or for placement.

One group of schools owned by a major conglomerate also operates a formal placement service in which placement officers assist the students throughout their training,

counsel the students on curriculum design, maintain files on each student's employment preference, and arrange interviews. The students are trained for job interviews by the placement officers as well. While placement is generally limited to a school's immediate area, this group can place students in other areas through contacts with other schools; there is even some foreign placement on temporary work visas -- for example, in England. These schools have maintained an excellent placement record -- one school obtains an average of 20 job offers per graduate.

All of the schools we visited reported that they had many more calls for students from employers than they had students to place. All schools also provided new students with lists showing job placement for previous graduates, so that a potential applicant could discuss the school with employers or other students.

One of the advantages of multi-school operation can be wide geographic placement. In fact, reciprocal placement is a service that many of the good proprietary schools in separate geographic markets offer each other, regardless of their corporate affiliation. The possibility of job placement coordinated with other member schools within a single group, however, seems to have been more valuable in dealing with high school guidance counselors than in placing graduates -- largely reflecting the geographic job preference of the graduates.

Salaries for proprietary school graduates seem to be competitive with those of public institutions' graduates. Graduates of one business administration and accounting program we reviewed start at $600-$650 per month. Most accounting graduates accept positions with CPA firms, industrial and commercial firms, and state and Federal government agencies. Secretarial graduates start at $450-$550 per month.

Revenues and Student Aid

Proprietary schools' revenues are derived from tuition, which is set at the highest rate possible to maintain full enrollment. Proprietary school students seem to be relatively insensitive to tuition as long as (a) programs are short (opportunity costs of foregone income are small) and (b) adequate financing is available.*

Financial aid is required by many students who attend the proprietary vocational schools we visited. Tuition charges are high, ranging from $225 to $625 per quarter for the schools in our sample, and most students come from lower to lower-middle income families. A study of students in one of the large corporately-owned group of schools showed 90 percent of families' incomes are below $15,000 per year, and the incomes of half are below $9,000 per year. In this group of schools, 1,200 students (or two-thirds of the total enrollment) participate in Federal, state, or Federal/state combined loan programs. The West Coast group of schools estimates, as well, that over half of its students participate in some type of student loan program.

Both of the large corporately-owned groups of schools we visited operate supplemental loan programs to assist students unable to obtain adequate guaranteed Federal or state loans. One of the groups now holds $400,000 in student notes, or about 13 percent of annual revenues.** Repayment is scheduled to begin one year after students leave school and runs for a period of 8-10 years. Individually operated proprietary schools, however, frequently do not have sufficient funds to allocate to long-term loans, so they are more likely to experience enrollment declines when Federal or state loan funds are scarce.

The administrators of all of the proprietary schools we visited felt that a fully financed guaranteed loan program with no lending limits and without artificial credit rationing due to low

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* As indicated by the FTC hearings (op. cit., see especially pp. 516-518, p. 18), students' willingness to pay high tuition charges for training which they believe will lead to a good job may be abused. In the District of Columbia and in the three or four states which did not regulate private vocational and home study schools, statements indicate that students paid "exorbitant tuition rates" for training due to promises of guaranteed job placement or easy payment plans unavailable elsewhere. For example, a Florida trade school which charged a relatively high tuition fee for training in the operation of heavy earth moving equipment, $995, allowed students to pay the tuition in monthly payments of $10.

** The dollar volume of student notes doubled in the past year, from $200,000 to $408,000, while revenues remained relatively constant. Continued rapid growth of student notes held is expected, so the ratio of notes to revenues will increase until repayments approximate the amount of new lending.

interest ceilings would be very helpful to their students. It should be noted, also, that the availability of loan funds affects enrollments as well as do tuition charges, especially because at least one management group feels that price (tuition) is not a major factor in securing enrollment -- provided that job placement is assured.*

All student loans made by the proprietary schools we visited have been made to students who were refused loans at local banks. For example, the $900 loan limit of the College Foundation, Incorporated in North Carolina has created a large problem for one school located in that state, because no local finance has been available to it.** In contrast, another member of the same corporate group located in a different state can refinance all of its student loans with a savings and loan company. It was reported to us that another corporate group bought a bank just to solve this problem, and that the proprietary school subsidiary of a third corporate group plans to increase its student loans from corporate funds in the coming year.

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* Some academicians are concerned that allowing proprietary school students access to guaranteed loan funds in turn permits the schools to increase their tuition. Two issues must be addressed in order to evaluate the merits of that concern:

-- what is the social value of selling training at cost; and

-- what role does the market play in controlling costs and limiting profits.

** The College Foundation, Inc. is a nonprofit institution which provides Federally guaranteed loans to students in North Carolina. It is supported by banks, which generally do not loan money directly to students, and state funds. Limits on interest rates that can be charged for Federally guaranteed student loans make banks reluctant to support the Foundation in periods of prevailing high interest rates. Thus, the College Foundation, Inc. is unable to meet the total demand for loans and must establish loan limits on Federally guaranteed student loans; the Federal government could still maintain low rates for students by subsidizing the higher market interest rates necessary to attract funds.

State loan programs are very important, as well. One school located in Pennsylvania reported that 56 percent of the student body have loans from the Pennsylvania Higher Education Assistance Authority (PHEAA). Admission counselors at this school estimate that at least half of these students would be unable to attend school in the absence of loan aid, and this estimate is supported by student questionnaire responses.

Costs

Because cost categories and program offerings vary among schools, it is impossible to present an average budget for a typical school. The following table presents the target budget for a group of schools as an illustration:

TABLE 2-1

ONE GROUP OF SCHOOLS' TARGET BUDGET*
(thousands of dollars)

Student Population in October	Revenue	Expenses	After Tax Net Income
100	144	196	- 52.0
200	288	279	4.5
300	432	402	15.0
400	576	488	44.0
500	720	573	73.5
600	864	619	122.5

* Assumptions:

1. Based on average tuition of $450 per quarter. (Actual tuition is now $420 per quarter.) Total enrollment through year equal to 3.2 times the October enrollment.

2. Income from registration fees, book sales, and evening classes not included.

3. A tax rate of 50 percent has been applied.

A rough breakdown of target expenditures per revenue dollar for this school group is as follows:

Cost Item	Percent of Revenue
recruitment, admissions, counseling	20%
instructional salaries	25%
general administration salaries	10%
space and other administrative costs (telephone, etc.)	15%
operating surplus after taxes	15%
Federal, state, and local taxes	15%

(Actual experience, although satisfactory, does not seem to reach these target rates, due to unanticipated or uncontrollable cost and revenue fluctuations.)

One of the major obstacles to achieving the ideal expenditure pattern can be excess facilities capacity due to occasional over-optimistic enrollment projections. For example, the operating surplus of one school was seriously cut because management projected enrollments too high and leased unnecessary additional space. Two other schools in that group have long-term leases on a boys' dormitory, which is likely to remain only partially filled, and on three vacant floors of an old building which are likely to remain vacant.

Plans for Growth and Development

Development plans clearly differ from company to company. Acquisition of new schools and improved market position are important concerns of all the schools we visited. Current profitability seems to be a less important characteristic of a school in valuing its acquisition than its market potential and reputation.

The managers of the group of schools owned by a financial holding company feel, for example, that their most important problems are acquiring schools with good potential for profitable operation, and finding the right people to operate them. They apply four criteria to potential acquisitions:

1) long existence

2) impeccable reputation

3) good market potential

4) recent enrollment decline

New management is the ingredient used to turn an otherwise losing proposition into a profitable operation. This group prefers that new management personnel have no background in education, but they require youth, intelligence, ambition, people-orientation, and profit experience. These criteria were corroborated by managers of several other groups of schools -- corporately owned or not.

The West Coast group, having closed two small and unprofitable schools, recently began a major facilities renovation program. In many of their schools, new facilities have been purchased, leased, and/or extensively remodeled, to try to overcome the traditional image of the proprietary school -- an upstairs loft in an unattractive building. (The equipment, on the other hand, continues to be modern and directly related to job needs rather than to teachers' interest.)

One group of schools began a program to sell franchises which almost ended in disaster. The group received unfavorable newspaper publicity, quality declined, and the group verged on bankruptcy due to resulting enrollment loss. This group recently has begun a "turn-around" attempt which involves several policy changes:

-- repurchasing franchises to allow corporate operation of member schools;

-- changing recruiting techniques away from hard-sell contract sales to those practiced by better quality schools (including a reasonable refund policy); and

-- emphasizing the instructional aspects of their program, rather than "coaching" for outside examinations.

As a result, both their placement experience and financial position have begun to improve.

III. COMPETITION BETWEEN PROPRIETARY BUSINESS SCHOOLS AND COMMUNITY COLLEGES

Mission

Proprietary schools have a single, well-defined mission -- specific occupational training aimed toward full-time job placement in the shortest possible time. While this is a limited objective, it meets the needs in principle of students, owners, and administrators. The objective of preparing students for employment is defined by owners and administrators as the goal of "staying in business" or "making a profit".* The profit motive is tempered by the need to provide training that is in demand by students and will yield job placement opportunities.**

The profit motive stimulates continuous changes in operation and instruction, to reflect changing demand and labor market conditions. Many older proprietary schools have prospered only by introducing new occupational programs.***

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* Belitsky, op. cit., p. 25.

** Of course, opportunities for abuse exist. Schools have an incentive to promise job opportunities to potential students to stimulate demand for their training programs. Generally lenient state laws and indifferent self-regulation by non-accredited schools lead many schools to engage in a hard sell that promises glamorous, high paying jobs to graduates. A recent Newsweek article points out that vocational schools do especially well when jobs are scarce. "Recession helps these schools. When the economy is bad, people grasp at straws. If you float one their way in the form of a better paying job with status, they'll grab it." See, "Vocational Schools: Promises, Promises", Newsweek, March 13, 1972, p. 80.

*** Belitsky, loc. cit.

Local business and industry also are served by this objective because they are provided with a pool of skilled potential employees whose job training has been geared to meet their particular needs.

Community colleges are characterized by the continued pressure "to be all things good to all people".* At the latest annual meeting of the American Association of Junior Colleges, the executive director stated that the clearest message to emerge from interviews with administrators, students, faculty, and community and state officials at 90 two-year colleges was that:

> Community colleges should concentrate on offering an open door to those who cannot get in or stay in other post-secondary institutions. The commitment to this policy is strong despite some frustration about the difficulty of dealing with the variety of ages, life styles, ethnic groups, and motivation and achievement levels.**

This study also concludes that a large gap between the promises and performance of community colleges often exists as illustrated by the high number of dropouts -- which may total as much as 60 percent of entering freshmen.***

The community college students we met frequently lack clearly defined goals and appreciate the opportunity to "sample" both academic and vocational training courses. In contrast, vocational school students in the schools we visited perceived the academic course requirements of local community colleges as a "waste of time".

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* Lloyd H. Elliott, "Education at a Profit", reprinted in The Congressional Record, Vol. 116, No. 139, August 12, 1970, p. 5.

** Larry A. Van Dyne, "Study of Two Year Colleges Reveals Many Tasks Are Unfinished", Address by Edmund J. Gleazer, Jr. in The Chronicle of Higher Education, March 6, 1971, p. 5.

*** Ibid. See also: Alexander W. Astin, College Dropouts, The American Council on Education, 1972.

One of the community colleges we visited illustrates the difficulties of pursuing the "open door" policy. This college, located in an urban inner city neighborhood, is very conscious of its role as an initial rung on the education ladder and as offering the last chance for many students to obtain academic or skills training. The administration, faculty, and students generally agree that the mission of the school is to take students at all levels of achievement and help them move in the direction of their choice, to a job or four-year institution. Several faculty members saw their role as trying to undo the damage of the public school system. An entering class of 900 students at this school in both academic and occupational courses could expect the following outcomes:

-- 100 drop out without completing any courses.

-- 200 have extreme difficulty. They are, in effect, getting the high school education they did not receive with their diploma.

-- 200 have academic difficulty, but hang on. The school is probably the last step on the educational ladder for them.

-- 400 require no special attention and are moderately to very successful students. About 50 percent ultimately finish two or four years somewhere, sometime.

Students

The general admissions requirement for all accredited proprietary business schools is a high school diploma or the equivalent. Our sample of proprietary schools seemed to be more selective than were the community colleges we visited, even though the stated requirements for admission are the same. For example, many of the students at the proprietary schools we visited had been enrolled in academic programs in high school, and/or ranked in the top half of their high school class. On the other hand, most students at the Midwest community college ranked in the lowest decile on ACT tests.

Where an area community college exists, proprietary school students have the option of attending that institution as well, because community colleges generally follow an "open admissions" policy.* Community colleges usually offer some business and technical programs in addition to their academic courses. We have no data with which to compare qualitative characteristics of students in proprietary schools and in community colleges; both groups of students seem to come from low- or middle-income families, and well over half of both groups attending the schools we visited were receiving some form of financial aid.

Performance

A comparison of the performance of proprietary schools and community colleges ideally would be standardized for differences in mission and in student body. Such standardization is beyond the scope of this study -- and perhaps infeasible even in a larger or more detailed study.**

We have chosen to compare performance based on three characteristics: completions, placement, and cost. Our findings should be interpreted as suggestive, rather than definitive, in view of the absence of a detailed statistical design.

Completions

Although proprietary school students complete their programs far more often than do community college students in general at the schools we studied, the community college students enrolled in vocational programs complete those programs about as frequently as do the proprietary school students.

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* Only a high school diploma or the equivalent is required.

** The American Institutes of Research is conducting a survey of all proprietary, public, and nonprofit vocational schools offering equivalent training programs in four metropolitan areas. Data obtained should allow general comparisons between these institutions with regard to student body, finances, operation, mission, etc.

Proprietary school counselors at schools we visited frequently advise students with academic difficulty to switch from degree or diploma to certificate programs. Such a change permits a student to avoid some advanced coursework, while still allowing program completion. About 85-90 percent of all proprietary school students enrolled at schools we visited completed some program. Of those who did not finish, more than half left for financial and/or personal reasons.*

Those students who elect to leave seem to do so for two major reasons:

-- they are compelled to drop into the job market for financial reasons, or

-- they decide that career education is not what they desire after all.

On the average, in the proprietary schools we visited, only about 2 to 5 percent of the students were asked to leave because of academic difficulty. (If these students had been certified and placed, they might have impaired their school's future placement function.)

The high completion rates at proprietary schools we visited seem to result generally from two factors:

-- the schools have a definite vocational mission, and design a curriculum which is within the grasp of students; (It is stressed that admissions counselors must encourage well-motivated, able students, and teachers must provide stimulating presentations, and gear the coursework to individual needs of students.) and,

-- the intensity and brevity of the programs leave little chance that either elapsed or idle time will affect the student's desire or ability to complete. (Students are in class four or five hours a day, five days a week, for one to eight quarters.)

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* Our estimates are somewhat higher than those of a recent study, which showed that 70 percent of proprietary business school students completed their training. See Fulton, op. cit., p. 1025. More than half of the dropouts cited financial or personal problems as a reason for leaving.

Individual attention, faculty accountability, and frequent feedback on performance factors seem to be at least partially responsible for the success of proprietary schools in motivating slow learners or dropouts not stimulated in public institutions. For example, one study which compared personal traits and completion rates of 1105 high school graduates and dropouts enrolled in proprietary trade and technical schools found:

-- high school dropouts had more family responsibilities, were more limited in financial resources, and were at a competitive disadvantage because of lower educational attainment; but

-- nearly three-quarters of the high school dropouts -- almost as many as the proportion of high school graduates -- completed their trade and technical school training. (See Table 3-1 below.)

TABLE 3-1

PROPRIETARY TRADE AND TECHNICAL SCHOOL COMPLETION RATES BASED ON FORMAL EDUCATION LEVELS[1/]

Education Levels	Percent Graduating
Through 9th Grade	78.5
Past 10th but not a High School Graduate	69.8
High School Graduate	85.6

(One possible reason why dropouts with nine years of schooling or less had a higher average completion rate than did later dropouts is that the completion rates are not standardized for course difficulty, and the less educated may have taken shorter or easier courses. Alternatively, the lack of a high school diploma makes the certification aspect of successful completion of a vocational program relatively more important to high school dropouts than to high school graduates.)

1/ Belitsky, op. cit., pp. 117-122.

Like proprietary schools, some community colleges allow students to change their level of study if their performance falls below minimum standards, with corresponding beneficial effects on their completion rates. For example, the organization of the technical and occupational courses at a large, urban, primarily black, Midwestern community college is based on a career ladder concept -- a student can start at the bottom of the career ladder with an ultimate degree or career objective, but terminate his education at various intervals with specific skills related to improved employment. Conversely, a student's initial concentration upon acquiring proficiency in a specific skill does not prevent subsequent progression to a more advanced program. The community college's attrition rate in this program is only about 10 percent, which compares very favorably with that of the proprietary schools we visited. (Students in community colleges who enter the Technical and Occupational Program, like their counterparts in proprietary schools, are probably highly motivated to obtain skills training; similarly, Technical and Occupational students are not required to take difficult academic courses.)

Placement

Quantifiable placement experience for proprietary schools and community colleges also is difficult to obtain. One study of placement of business school students, however, reported favorable results -- more than 80 percent (including both graduates and dropouts*) were employed in training-related jobs six months after leaving schools.

Results of a follow-up study of almost 5,000 former vocational school students indicate that the training received was generally perceived to have been worthwhile by the respondents:**

-- 59% reported that, if they had the choice to make again, they would go to the same school and take the same training;

-- 81% reported that their first job was directly related to their training;

-- 23% were "very satisfied" with their first job and 47% were "satisfied"; and

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* Fulton, op. cit., p. 1025.

** "Specialty Oriented Student Research Program", The Compass, September, 1971, p. 12.

-- surprisingly, only 25% heard about their first job through the school, while 51% reported no contact between the school and their first employer.*

A trade and tecnhical school in a large Eastern city uses placement experience -- in the form of case studies -- in its recruiting literature. That school places all of its graduates consistently.

The confusion over mission at community colleges weakens their placement service, and hence their abilities to compete with proprietary schools. One of the community colleges in our sample, a large urban West Coast school, has experienced severe placement problems, especially for the trade and technical students who represent about 45 percent of their total enrollment. The school's placement problems seem to be due to a divergence between course offerings and area employer needs. Although the school's placement has improved somewhat, at one time the school placed only about one-third of its graduates. In contrast, administrators of the West Coast proprietary schools we visited stated that there were from 8 to 20 job openings available for each of their graduates.

The higher tuition charges that students seem to be willing to pay for proprietary school training probably reflect, to some degree, an implicit payment for placement services as well.** Because both the community colleges we visited were continually burdened with internal and external political conflicts and operating inefficiencies (often due to externally imposed constraints), their placement officers had some difficulty convincing administrators of the importance of a strong occupational program with follow-up placement. Further, a prospective employer may be unaccepting of assurances of good performance from community college placement officers because community colleges have only an indirect financial interest in the achievement or success of their graduates.

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* These data were taken from surveys of students in about 100 accredited proprietary business and technical schools. Schools participating in the study do so voluntarily, and are among the nation's most reputable proprietary schools. These responses, therefore, should be viewed as especially favorable to proprietary schools and should not be generalized to other accredited schools or to non-accredited schools. Although only 25 percent of students state they heard of their first job through the school, students may be unaware of ongoing communication and relationships with employers which the schools maintain and which administrators perceive to be an important placement tool. Source: Personal communication with Dr. Kenneth Hoyt, Program Administrator, University of Maryland, College Park, Maryland.

** Placement was one of three explanations of the continued popularity of proprietary business schools cited by students interviewed by Stanford Research Institute. See Stanford Research Institute, "Supply and Demand Factors Affecting Vocational Education Planning", 1966, reprinted by UBSA, pp. 44-45.

Student Costs and Financial Aid

Government subsidies permit community colleges to maintain low tuition charges, but the costs to society to finance skill training at community colleges, as shown later in this section, may be greater than costs at proprietary schools. Output for vocationally-oriented students, measured in terms of completion rates or job placement, on the other hand, seems to be as good or better for proprietary schools.* Annual proprietary school tuition charges averaged $850 in 1969-70, compared to only $148 in community colleges, but a 1967 study estimates the public total subsidy for two years of public post-secondary vocational training is $1,458** -- making the direct costs of the two years of education about equal.

Neither of the two community colleges included in our sample charged any tuition to area residents, while proprietary schools' tuitions ranged from $225 to $600 per quarter. For example, a full time student enrolled in a business skills program in one of the independent Southern business schools we visited would be required to pay $225 tuition, a $10 activity fee, and about $40 for books each quarter. On a yearly basis (4 quarters) his total cost would be $1100. A student enrolled in the Midwestern community college, if he is an area resident, would be required to pay only a one-time $10.50 registration fee and about $50 for books per semester, equivalent to an annual (3 semester) cost of $160.50.

A student's total cost of attending school includes living costs and the opportunity cost of foregone income (minus transfer payments in the form of grants), as well as tuition charges. Living costs can probably be regarded as similar for students attending proprietary schools or community colleges, depending on their family situation; they differ substantially between resident and commuter students. The Midwestern community college, for example, estimated that the living cost of an independent student living away from home is $3,422, while the living cost of a dependent student living at home is $2,585.

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* This comparison must be qualified. More motivated and/or more placeable students may choose proprietary schools, so that placement experience is a result more of students' pre-selection than of programs. No evidence exists which permits a comparison of placement experience between proprietary schools and community colleges, controlled for student characteristics.

** Robert M. Fearn and Loren A. Ihnen, "An Economist's View of Planning Problems in Community College Systems", paper prepared for the Symposium on Systems Analysis for Higher Education Planning, June 9, 1970, Virginia Polytechnic Institute, Blacksburg, Va., p. 5.

The opportunity costs of training are, as a general rule, higher for community college students because equivalent training usually requires more time in school. An example illustrates how much total costs are reduced for a proprietary school student enrolled in a one year training program, compared with a community college student enrolled in a two year program. Assume:

1) The students are equally qualified.

2) The students can both earn weekly after tax incomes of $75 before training and $100 after training.

3) Community college tuition is $0 and annual proprietary school tuition is $1000.

4) All other annual expenses are $1500 for both students.

5) The community college student works 10 weeks for each summer. Neither student works part-time during school.

The total training costs for each student are shown in Table 3-2:

TABLE 3-2

ASSUMED COSTS OF TRAINING

Costs	Community College 2 Year Program	Proprietary School 1 Year Program
Tuition	$ 0	$ 1000
Expenses	3000	1500
Foregone Income	6300	3900
Total	$ 9300	$ 6400

The community college student's total costs exceed those of the proprietary school student by $2900 or 45 percent. The after-training annual incomes of both students exceed their before-training income by $1300. The community college student will have to work about seven years, over two years longer than the proprietary school student, to recover his training expenses. (A community college student in this example would have to earn about 10 percent more than the proprietary school student in this example to amortize the cost of training in the same five year period.)

Opportunity cost considerations seem to motivate students at the schools we visited, especially those able to finance higher tuition charges at proprietary schools. In addition, the total direct cost to society (tuition plus subsidy) of community colleges may exceed that of proprietary schools, even though the quality of training (as measured by completion rates and placement experience) may be no better or, perhaps, inferior.

Availability of adequate student aid may be as important to a student as the actual tuition cost. Well over half of all students at both the proprietary schools and community colleges we visited were eligible for student aid, and from 30 percent to 60 percent of students received it.

Because availability of additional financing increases enrollment and profits, proprietary schools have a strong incentive to arrange new financing for individual students' needs. Community college administrators are constrained by the actions of governmental units and tend to ration aid over as many students as possible.*

Students on financial aid at the Midwestern community college are urged to carry 15 or more hours per semester. This course load may seem heavy, especially for students participating in the college work study program, but the student financial aid office is very concerned that these students maintain some college work study or EOG eligibility if and when they decide to go on to complete a bachelor's degree after leaving. Over 90 percent of the students on financial aid now carry 15 or more hours.

The fact that financial aid eligibility is often insufficent to give a student the opportunity to complete a bachelor's degree at a subsequent school probably has two effects. First, it reduces the completion rate at the college; and second, it reduces the transfer rate for those who do complete. Student transfers are further discouraged by the lack of inter-institution coordination of student financial aid and by the fact that transferring students are treated as new applicants -- who have lowest priority for student financial aid in their new institution. Transferring students are often excluded from all but loan funds. In addition, even when such aid as college work study is available, it is often inappropriate -- such as washing dishes or doing menial tasks. Many transfer students prefer loan funds to payment for menial work unrelated to their course of study.

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* We found that student aid officers in four-year colleges had the same incentive. (See Erickson, et. al., op. cit., p. 47 for discussion.)

The Midwestern community college serves as an example of the difficulties encountered under the current constraints on financial aid. Because the Financial Aid Office Director perceives a problem of equity among student loans,* he tries, instead, to meet the first need dollars with college work study for the maximum amount possible and relies second upon EOG money. (Only in high need cases, frequently resulting from medical expenses, does he resort to NDSL or state loans.)

Proprietary school students receive private, Federal, or state loans, rather than grants. Most students prefer to complete their training as quickly as possible in order to begin work; part-time study, therefore, is less popular. Some students may have their tuition paid under some form of government training program, e.g., WIN, MDTA, or a state vocational rehabilitation program. At the proprietary vocational school we visited, 20 percent of the students received aid under the G.I. Bill, and another 20-30 percent received assistance as part of a training program. In addition, a large number of the remainder received some type of student loan.

Institutional Revenues and Costs

A direct comparison of operating costs between proprietary schools and community colleges is difficult. Differences in accounting and operating policies require that comparisons of individual costs per student for such functions as recruitment be carefully qualified.

There are two general conclusions which can be drawn, however, from a rough comparison of proprietary school and community college costs:

-- faculty costs are higher in community colleges; and
-- community colleges have less year-to-year budgetary discretion.

Community college faculty costs seem to be higher for two reasons. Community colleges require more academic credentials for faculty; a community college competes with other two-and four-year colleges for faculty. The proprietary schools we surveyed, on the other hand, primarily hire instructors with baccalaureate degrees and pay salaries competitive with public high school teaching salaries.

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* One of the Director's arguments is that a high school diploma does not necessarily guarantee a high school education. He regards it as inequitable that some students might be required to borrow to fill in gaps in their high school education.

Second, many community college faculty belong to a labor union, whereas proprietary business school faculty have individual -- and short-term -- contracts with their schools. New faculty at the Midwestern community college are given one-year contracts for the first three years; if a fourth contract is entered into, the faculty member receives tenure. All contracts at this school call for 12 teaching hours and 3 extra contact hours per week -- in contrast to 25 total hours required at one of the corporately-owned proprietary schools. Instructors at this community college average $13,100 per academic year, and full professors average $21,800 including fringe benefits.

Community college administrators have little year-to-year budgetary discretion because the largest cost elements, faculty salaries and plant and equipment maintenance, involve long-term commitments. To the extent that faculty are tenured and/or unionized and the plant and equipment are owned, rather than leased, the corresponding costs cannot be avoided from one year to another. Proprietary schools, on the other hand, do not enter into long-term faculty contracts, and generally lease plant and equipment. Much of their budgets, therefore, could be reallocated over one year if enrollments changed.* The budgetary flexibility which proprietary schools enjoy provides them with the opportunity to enter and exit from particular student markets and/or training programs as enrollment and placement opportunities change, without incurring high incremental overhead costs or continuing commitments to permanent faculty. Community colleges do not have that flexibility, and therefore face a time lag in responding to employers' needs or students' desires.

The same flexibility which attaches to cost allocation applies to revenues, as well. Proprietary schools receive the bulk of their revenue from tuition (and, in some case, from training contracts with governmental units). Students can enroll or resign at any time, in response to a school's program or operations. Community colleges, on the other hand, receive most of their funds from government and very little from tuition. The following table shows revenues by source at the Midwestern community college:

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* To the extent that community colleges do not accrue depreciation and other capital charges, because funds for plant and capital equipment may be provided by special appropriations of the local government, owning may appear erroneously to be less costly than leasing. Owned facilities are, however, accompanied by operating expenses, e.g., maintenance, which are incurred even when enrollment declines.

TABLE 3-3

SOURCES OF REVENUE: 1970-71
(000 omitted)

Source	Amount	Percent
Federal Government	$ 493	10
State Government	1450	30
Municipal Government	2793	59
Tuition	33	1
TOTAL	$4769	100

The greatest source of revenue is the municipal authority. On an annual basis, the municipal government provides necessary funds to make up the difference between total expenditures and total revenues from all other sources. There is no tuition charge for city residents. Students residing in other parts of the state and other states are required to pay tuition. However, few out-of-town students currently are enrolled, and this source of funds is not expected to become significant in the near future. Revenue obtained from these government sources is based on budgets prepared and submitted one to two years before the funds will be received. External factors often affect budget decisions, creating distortions and/or inefficiencies in the school's operations. There is a reduced incentive, as well, to respond immediately to students' and employers' needs because discretionary revenues are not affected directly by students' tuition payments.

Short-Term vs. Long-Term Competitive Effects

Although most of the proprietary vocational school administrators we met do not see community colleges as an important long-term threat to their schools, they generally acknowledged that a community college can have a damaging effect on their enrollment in the short-term. One of the member schools in a large corporate-owned group was able to adapt successfully to a new, nearby community college, but only after serious difficulties and with a complete management change. This school has a well-established and good reputation, and provides business training in a congenial, small campus setting. The new community college is located only ten blocks away, and provides occupational and general education training at low direct out-of-pocket cost to area residents. Whereas the business school has dormitory facilities for both men and women students, and thus attracts students outside the immediate area, the community college generally enrolls students who live within commuting distance of the school.

Enrollment at the proprietary school declined by one-half during the first five years of the community college's operations. During the sixth year, one year after the management change, the enrollment trend was reversed, and enrollment increased to the point that the proprietary school earned a small profit. This quick turnaround was the result of four factors listed below in order of importance:

-- an enlarged and more effective recruiting effort;

-- higher tuition with no corresponding enrollment decline;

-- better program control leading to reduced faculty costs; and

-- diminished attractiveness of the community college to the proprietary school's natural market, possibly caused by administrative problems internal to the college.

The last factor seems to be a typical result (according to the proprietary school and community college administrators we met) which occurs after a community college and proprietary school have achieved a relatively compatible existence -- the schools become identified by prospective students as providing qualitatively different services. In the specific case cited, the proprietary school's new management capitalized on that school's advantages as perceived by students, including:

-- the school's long-term good reputation;

-- the school's emphasis on specific skills training;

-- more congenial and close-knit atmosphere which results from the school's small size;

-- less confusion and wasted time in fulfilling course requirements for the various program offerings; and

-- the "open door" policy of the community college. (Many students consider this policy undesirable because their expectations are that classes will not be achievement-oriented.)

The chief admissions counselor at this proprietary school feels that the community college, by virtue of its lower tuition, invariably will get some students whose career goals would be better served at his proprietary school. Nevertheless, he feels that his school will meet its profit objectives because the community college must serve a wide array of area needs and expectations, and thus is unlikely to develop a sharply-focused and effective, competitive curriculum. Even if the community college developed a strong business curriculum, he reasoned, it

still would be regarded as a "school", with all of the negative connotations many students associate with school. The proprietary school, on the other hand, seems to be perceived mainly in terms of career orientation -- due to strong marketing efforts to achieve this image. The admissions counselor feels problems resulting from conflicting and diverse missions are generic to community colleges, and not just a specific weakness of his competitor. This point of view was shared by administrators at all the proprietary schools we visited.

Continued Viability of Proprietary Schools

Despite the tuition differential, students continue to invest large sums of money for training in proprietary vocational schools. Some of the reasons indicated by the students we met which explain their investment include:

-- The superior placement record which proprietary schools offer; (One of the first things that counselors are likely to show visitors and prospective students is the mimeographed list of the placement record of the last graduating class.)

-- The emphasis on job-related training in a more realistic job setting as compared with more general course offerings at community colleges; (Proprietary school students may select programs which provide specialized training in their area of interest, such as medical or stenographic secretary, whereas community college occupational programs were set to provide less specific courses and to require completion of academic courses as well.)

-- The short time to completion at proprietary schools, which reduces the student's opportunity cost, or foregone income.

Although several of the desirable instructional features used by proprietary vocational schools (particularly their willingness to gear instruction to needs of individual students) have been emulated in part by community colleges, we feel that proprietary schools will at least maintain their current relative position in the market for post-secondary education for the following reasons:

-- Proprietary schools will continue to be preferred by many students who feel they want intense job oriented training.

-- Many highly specialized course offerings related to specific employment could be provided by non-profit liberal arts colleges only at large incremental costs. (Proprietary schools, with low fixed costs, have established programs that enroll a small number of students at any given time throughout the calendar year.)

-- Proprietary schools appear to have more institutional flexibility than do community colleges to experiment with new training programs, methods of instruction, and course materials.

The success of proprietary schools depends, however, partly on several Federal policies. Proprietary schools' viability is determined in part by the availability of different types of loan programs and the eligibility of proprietary schools to participate in different types of Federal training programs. The next section describes existing Federal policies affecting proprietary schools and presents suggestions for further study.

IV. POLICY IMPLICATIONS

Existing Federal Policies

The flow of Federal and state funds in support of education traditionally has been viewed as almost synonomous with support of public education institutions. However, recent Federal legislation calls for the utilization of all facilities through traditional support or by participation under contract. Former U.S. Commissioner of Education Harold Howe told the American Management Association in 1966:

> Profit-making organizations are now eligible for support -- further evidence of the growing awareness that responsibility for educational advancement, in research, or in other aspects of education, need not be the exclusive province of educators operating out of our schools and colleges.*

Some educators still feel that Federal utilization of proprietary schools undermines the public education system. They propose that funds for contracts with proprietary schools could be used instead to build into the public system the innovative activities which underlie the success of the proprietary schools. In 1967, for example, John M. Lumley of the National Education Association testified before a Congressional subcommittee on education that he strongly objected to USOE contracts with profit-making organizations because such support would

> authorize the Commissioner to use taxpayers' money to provide profit for private agencies in carrying out activities which are closely and solely the prerogative of the public schools and public and private nonprofit institutions and agencies.**

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* Howe, Harold, II, "The Realities of the Learning Market", Educational Technology, Spring 1967, pp. 39-40.

** "NEA Raises Objections to USOE Contracts with Profit-Making Groups", The Compass, June, 1967, p. 1.

The conflict over the legitimate role of proprietary vocational schools in meeting Federal objectives is illustrated by the different uses made of proprietary vocational schools under various public programs. For example, Labor Department administrators of the Manpower Development and Training Act invest large sums to support trainees attending proprietary vocational schools; $6.8 million was spent in training 7,858 trainees in business schools in 1966 and in 1969. A total of 30,000 manpower trainees were enrolled in private vocational schools at a total cost of about $17 million. In contrast, a survey conducted by the United Business Schools Association found only a few instances in which the facilities of a proprietary business school had been utilized to carry out a program under the Vocational Education Act of 1963 within HEW -- despite the express intent of Congress to use proprietary vocational school facilities*

Contract training in proprietary business schools has been a feature of MDTA administration for many years. Several contracts have been awarded from USOE to UBSA to use member schools to upgrade the skills of unemployed persons. For example, from June, 1969 to November, 1970 Project Upgrade provided $500,000 for training to be used as follows: $425,000 for tuition payments to member schools; $20,000 for schools to conduct surveys of trainee potential; and $55,000 for UBSA project administration. The goal was to train about 1000 trainees at an average cost of $425/trainee.

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* Numerous illustrations exist of the inconsistent treatment of proprietary schools which apply for Federal contracts to provide vocational training. For example, a business school which we visited placed the low bid for a contract under MDTA's Concentrated Employment Program, but a community college placing a higher bid received the contract. The business college administration felt it did not receive an adequate explanation of the reason its college was not awarded the contract; "rules" were cited (but not explained) which required contracts to be awarded to the community college.

UBSA subcontracted with the National Association of Trade and Technical Schools (NATTS) to permit its member schools to participate in the program, and to provide a wider range of occupational training -- 1,194 trainees were enrolled in 41 schools at an average cost of $321 per trainee. Overall, about 45 percent did not complete the program. In about three-quarters of the schools, trainees attended classes with other students and were not identifiable.

One new element in the OE-UBSA contract places the responsibility for locating potential trainees with the participating schools. The major element in a school's success in locating trainees appears to be the degree of cooperation between the school and the local employment service -- most schools that fill their quota rapidly report excellent cooperation from the local employment service.

Federal programs may also assist proprietary vocational schools through direct financial aid to enrolled students. Programs administered by HEW and by other agencies provide grants or loans to students attending proprietary vocational schools.*

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* Programs which provide student financial grants were:

1) Social Security Student Dependents: P.L. 89-87; See Sect. 202(d)(8)(c);
2) Railroad Retirement Student Dependents; P.L. 89-700; See Sect. 5(1)(1);
3) F.E.C.A. Student Dependents; P.L. 89-488; See Sect. 10(m);
4) Student Dependency and Indemnity Compensation for Veteran's Children; 38 U.S.C. 104, 414(c);
5) Civil Service Retirement Student Dependents; P.L. 89-504;
6) War Orphans Educational Assistance; 38 U.S.C. 1701 et seq;
7) Veterans Readjustment Benefits Act of 1966; P.L. 89-358; See Sect. 1652(c);
8) Educational Grants to Indians; 25 U.S.C. 13;

Programs which provide student loans are:

9) Vocational Loans to Indians; 25 U.S.C. 471;
10) Vocational Loans to Eskimos; 25 U.S.C. 479;
11) National Defense Student Loan Program; Title II, National Defense Education Act;
12) Work Study Program; Title IV, Part C. Higher Education Act, P.L. 89-329 as amended;
13) Federal Insured Student Loan Program; Higher Education Act, P.L. 89-329, as amended.

It has been estimated that about 27 percent of all business school students are recipients of Federally guaranteed loans.* A survey of UBSA members in 1970 indicated similar results: an average of 76 students per school, or 23 percent, were receiving guaranteed loans and another 50 students, or 16 percent, were participating in other Federal loan programs. These results are consistent with our limited survey findings discussed earlier.

Generally, the minimum requirement a proprietary vocational school must meet to be eligible for direct Federal contracts, or to enroll students receiving HEW loans or grants, is to be accredited by an accrediting commission recognized by OE.** At present the Accrediting Commission for Business Schools and the National Association of Trade and Technical Schools are the only accrediting commissions for business and technical schools authorized by OE.***

The standards of accreditation for private vocational schools are intended to serve three interest groups:

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* "Baxandall Gathers Statistics on Business Schools", The Compass, September, 1969, p. 12.

** While HEW requires that a school must be accredited to enroll students receiving aid from programs OE administers, other agencies may have different requirements. For example, to be eligible to enroll students receiving veteran's education benefits, a school is required by the Veteran's Administration only to meet state licensing requirements. In the states that have special laws governing proprietary schools, the range of control varies from annual registration with a brief statistical report (Florida and Alaska) to very restrictive laws (Minnesota). Almost 5,000 proprietary vocational schools have students enrolled receiving veterans' education benefits. The Social Security Administration has requirements similar to those of the Veterans' Administration.

*** Additional accrediting commissions also are recognized by OE for vocational schools providing training in other fields. For example, beauty schools must be accredited by the Cosmetology Accrediting Commission to be eligible for Federal contracts and home study schools must be accredited by the National Home Study Council.

-- employers, as an indication of the reliability of training received by potential employees;

-- students, as a guideline for evaluating prospective schools; and

-- the schools themselves, to assist them in establishing and maintaining high standards.

Accordingly, the criteria for accreditation generally relate to a school's objectives and the integrity and effectiveness with which they are met. These objectives include the educational program, administration, the academic and administrative staff, the library, instructional materials, financial policies, school facilities, admission, recruitment and graduation policies, and student services.*

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* There are ten general criteria which a school must meet to be eligible for accreditation:

1) Each school should clearly define its objectives, and incorporate a statement of objectives in its catalog.
2) The educational program should impart knowledge and develop skills.
3) The ownership, control, and type of legal organization of the school should be stated in appropriate publications together with the names of administrators and officers.
4) The educational background of faculty members and the method of instruction should be adequate and appropriate to the subject matter taught. Where class instruction is provided the student teacher ratio should not exceed 30:1; the maximum teaching load should not exceed 31 hours per week.
5) The administrative, counseling, clerical, and custodial staff should be appropriate and adequate; professional personnel should receive adequate compensation.
6) The library facilities and classroom instruction materials should be adequate to serve the needs of the educational program.
7) The tuition and other charges should be clearly stated in the catalog; the refund policy should comply with the "Ethical Standards" (published as separate guidelines).

(continued on following page)

Need for a Consistent Federal Policy

Proprietary schools educate about one-fifth of the nation's post-secondary education enrollment. The numbers and types of proprietary schools are changing, and there is increasing evidence that proprietary schools provide vocational education which is cost-effective and consistent with national post-secondary education objectives. But the Federal government does not have a consistent policy towards use and support of proprietary schools which addresses the following topics:

-- Federal agencies covered;

-- agency with prime responsibility for monitoring policy and directing policy research; and

-- schools and programs covered.

(continued from previous page)

8) The school facility should be readily accessible, extensive enough to provide for all instructional and recreational needs, attractive in appearance and properly maintained; the school plant and equipment should contribute directly to the achievement of the school's educational objectives.
9) The admission policies should be publicly stated, non-discriminatory, and require at least completion of high school or the equivalent as a prerequisite for regular enrollment; the school should confer certificates, diplomas, specialized or academic degrees consistent with its objective and in compliance with applicable state laws; recruitment methods should be appropriate and the proportion of the total school budget used for recruitment should not be excessive; student services (e.g., placement, health, counseling) should be appropriate and adequate.
10) Each school should publish a catalog and a school calendar; advertising should be factual and in good taste.

The accrediting process requires that institutions seeking accreditation furnish applications, current catalogs, and other relevant documents to ACBS. A self evaluation questionnaire also must be completed by the school. Subsequently, an on-site evaluation is made by a visitation team appointed by the Commission. Any deficiencies are brought to the attention of the institution, which must present evidence of correction to the Commission before accreditation will be granted. Withdrawal of accreditation may result if the institution fails to file satisfactory annual reports with the Commission or no longer meets acceptable standards when reevaluated. Accredited institutions are reevaluated every six years; an on-site evaluation is conducted at this time.

A Federal proprietary school policy could encourage joint ventures between proprietary vocational schools and other post-secondary education institutions. The result would be a broadening of educational and occupational choices by allowing students in academic studies to learn specialized skills in a specialized environment. The continued pressure on public and private colleges and universities to broaden their curricula and goals has led many to attempt too wide a range of efforts. In response, college and university objectives have become "socialization" or "exploration", often with little substance and little relationship to providing marketable skills to graduates. The relative strength and single-mindedness of purpose of proprietary vocational schools, in contrast, is perhaps the greatest reason for their success.

A joint venture with a proprietary business school was instituted for the 1970-71 school year by Stratford College in Danville, Virginia, the first regional accredited liberal arts college to offer a program of this type. In their junior year, Stratford students may elect to enter the February term of New York's Katherine Gibbs School and take the latter's regular executive secretarial training program. After satisfactory completion of this course, Stratford students will return to the college to complete their senior year in the liberal arts program. Upon graduation they will receive both their B.A. degree and the Katherine Gibbs certificate, and they will have the benefit of lifetime placement from both schools.

Joint ventures between proprietary schools and industry could also be encouraged. Proprietary schools could provide necessary remedial or skills training to employees. In addition, many more unemployed and under-employed persons could be trained in proprietary schools under MDTA. The flexible operations of most proprietary schools make them particularly useful in this area, especially with regard to frequent starting dates and the capability for enrolling persons on an individual basis. One of the member schools in the West Coast group assists a large utility by training some of its engineers; this joint-venture arrangement seems to have worked well for both parties. In addition, one of the schools controlled by the financial holding company has a cooperative venture with a national manufacturing corporation, which also seems to be successful.

Further Research and Analysis

The Federal government does not maintain extensive data on proprietary schools, nor has it sponsored much research on the costs, quality, or role of those schools. Two studies currently underway seek to provide previously unavailable data on proprietary vocational schools. The American Institutes for Research is conducting a survey of all proprietary schools and other public or nonprofit schools which provide training in four occupations -- office, computer, technical, and health -- in the metropolitan areas of Atlanta, Rochester, Chicago, and San Francisco.

About 140 proprietary schools and 15 two-year colleges and other nonprofit institutions which meet these criteria have been identified. Administrators of the schools will be interviewed to obtain information regarding income and expenditure patterns, student services, curriculum, staff qualifications and instruction, the nature of the student body, and major changes in mission or organization in the past three years. Students and alumni will be requested to complete questionnaires designed to obtain demographic data as well as information on mission and employment experience.

The Carnegie Commission is in the process of conducting a survey of a larger number of schools -- a sample of all proprietary vocational schools which are licensed or otherwise meet state requirements. Thirty-seven hundred questionnaires have been sent to proprietary schools in eleven states, selected to reflect the U.S. as a whole.

The hearings held by the Federal Trade Commission in December, 1970 on proposed guides for the operation of private vocational and home study schools also add to understanding of the operation of these schools. Primary consideration was given to deceptive practices, such as misrepresentation of placement opportunities and accreditation, unfair cancellation and refund policies, and the provision of low quality training. The FTC "Guides" were published on May 16, 1972. Although they interpret existing law and thus are only advisory in nature, proceedings to enforce statutory authority may be brought under the Federal Trade Commission Act (15 U.S.C. Secs. 41-58).

Additional questions must be addressed before the Federal government can develop a sound proprietary school policy. First, the Federal government needs to understand better the factors which control quality of instruction and placement in proprietary schools -- specifically how and when market forces do not control quality and what reinforcements or safeguards can be used to improve quality control.

Second, the Federal government should identify and analyze the effect of alternative and seemingly unrelated Federal policies on the growth and development of proprietary schools. For example, a decision to expand Federal aid to students in lieu of expanded support of public institution construction and/or operating costs would increase the growth of proprietary schools.

Third, further analysis is required to compare the costs to society and to students of proprietary school and community college vocational education. Common definitions and accounting practices are a prerequisite to any such comparison.

Finally, the results of other research need to be weighed against our findings to determine the amounts and types of generalization our limited data permit. Further comparisons between proprietary schools and community colleges should be designed to permit such generalization.